

Gaming

DOJ Opinion Opens Door for Internet Gaming

Last Friday's DOJ opinion reverses the department's previous long standing view that all forms of internet gaming (not just sports wagering) were illegal. We view the ruling as a significant event for the U.S. gaming and lottery industry that essentially opens the door for states to consider offering internet gaming and lottery products (ex sports wagering). We believe state lotteries and/or vendors like Scientific Games, Gtech, and Intralot are the biggest near-term beneficiaries of last Friday's ruling.

- **DOJ reverses its stance on I-gaming.** At the request of the IL and NY state lotteries, the DOJ posted a pro-industry opinion last Friday regarding the legality of selling lottery tickets over the internet. In its letter, the DOJ indicated the sale of lottery tickets over the internet within the state *did not violate* the federal Wire Act of 1960 because it does not involve wagering on a "sporting event or contest". While the opinion dealt specifically with selling lottery tickets, our legal contacts believe the opinion applies to other forms of gaming including casino games and online poker. Therefore, last Friday's ruling essentially allows individual states to consider allowing various forms of internet gaming (ex sports wagering) without threat of violating federal law. While there are still political challenges to passing I-gaming in each individual state, we believe the DOJ's ruling pushes the topic forward in a meaningful way.
- **State lotteries to offer tickets online?** With no threat of federal intervention, we suspect there will be a significant pickup in legislative and/or regulatory activity across a number of states in CY12 regarding internet gaming. We believe state lotteries will move forward the quickest given the DOJ opinion letter was issued in response to a specific request by the IL and NY state lotteries. According to Gambling Compliance, MN, VA, NH, DC, and ND lotteries are already in the process of developing internet programs and along with NY already sell subscription packages online. Given the DOJ's new opinion, we look for many states to begin selling *virtual* lottery tickets over the internet in the near future which we believe could provide a meaningful boost to ticket sales.
- **Potential for online casino & poker.** In addition to the lotteries, we believe many states with land-based casino gaming will also consider authorizing internet gaming as well to help fund large budget deficits. According to Gambling Compliance, NV and DC have already authorized internet gaming while CA, HI, IA, FL, MD, and NJ are all likely to consider internet poker legislation in CY12. In addition, some legal experts have argued that the DOJ's new position could allow states to sign agreements with each other to allow residents to gamble online in any state where the activity is legal. These types of interstate agreements would be very important for online poker offerings, which require significant player liquidity to be successful.
- **Who benefits from the change?** Internet Gaming is a significant new market opportunity with worldwide eGaming sales estimated to reach ~\$30 billion in CY12 according to H2 Gambling Capital. Again, we believe individual state lotteries and vendors like Scientific Games, Gtech, and Intralot will be the first to benefit from selling virtual lottery tickets online. In addition, casino operators w/ strong brands (i.e. Caesars, MGM, Las Vegas Sands, & Wynn) would also benefit from operating virtual casinos if authorized by enough states. Finally, traditional gaming suppliers like IGT, Bally, WMS, Aristocrat, Konami, and Shuffle Master should also benefit from providing game content and/or technology to host online casinos.
- **Expect additional M&A activity among suppliers.** Finally, we believe the expansion of internet gaming in the U.S. could spur an additional wave of M&A activity among the gaming equipment suppliers as domestic companies look to acquire, merge, partner with more established European internet gaming providers (888, BwinParty, Sportingbet, Amaya, etc.). We note the lottery providers (SciGames, Gtech, Intralot) have already partnered with or acquired internet gaming companies, while IGT recently acquired Entraction Holding AB. Given recent events we would not be surprised to see additional M&A activity in CY12.

Reason for Report:

Industry Update

Roth Covered Companies Mentioned in this Report:

BYI	\$38.88	Buy
GCA	\$4.68	Neutral
IGT	\$16.55	Buy
MGAM	\$7.90	Buy
SGMS	\$8.20	Buy
SHFL	\$11.79	Buy
TACT	\$7.50	Buy
WMS	\$20.81	Neutral

Stock prices are as of previous day's close, if not otherwise specified



Gaming Industry Comparable Multiples

Prices as of 12/23/11 close

all values in millions except for current price, average volume, EPS, and ratios

Company Name	Ticker	Rating	Target Price	Market Price	% Upside	Avg. Vol.	Yr End	Dil Shs	Net Debt	MCap	EV	P/S			EV/EBITDA			P/E					
												2010	2011	2012	2010	2011	2012	2010	2011	2012			
<u>Equipment Suppliers</u>																							
Bally Technologies, Inc.	BYI	Buy	\$50.00	\$38.88	29%	530,823	Jun	45.6	\$435.3	\$1,771.6	\$2,206.9	2.4	2.2	1.9	8.9	8.8	7.1	21.2	19.4	13.8			
Galaxy Gaming, Inc.	GLXZ-U	NC	NC	\$0.25	NC	4,194	Dec	35.5	\$1.0	\$8.9	\$9.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a			
GameTech International Inc. (b)	GMTC	NC	NC	\$0.04	NC	33,713	Oct	11.8	\$20.7	\$0.4	\$21.1	0.0	n/a	n/a	3.3	n/a	n/a	n/a	n/a	n/a			
Gaming Partners Int. Corp.	GPIC	NC	NC	\$6.19	NC	N/A	Dec	8.2	(\$25.1)	\$51.0	\$25.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	9.7	7.5			
Global Cash Access Holdings, Inc.	GCA	Neutral	\$3.00	\$4.68	-36%	908,140	Dec	64.8	\$140.2	\$303.0	\$443.2	0.5	0.6	0.6	6.4	8.7	7.7	17.9	36.9	21.9			
International Game Technology	IGT	Buy	\$21.00	\$16.55	27%	3,014,541	Sep	299.2	\$1,030.7	\$4,951.8	\$5,982.5	2.6	2.5	2.3	8.2	7.5	6.9	20.8	17.2	15.2			
Multimedia Games, Inc. (b)	MGAM	Buy	\$9.00	\$7.90	14%	185,984	Sep	27.1	(\$34.4)	\$214.0	\$179.6	1.8	1.6	1.6	3.2	2.9	2.9	n/a	26.4	24.0			
Konami Corp	KNM	NC	NC	\$29.74	NC	5,360	Mar	138.6	(\$172.5)	\$4,122.7	\$3,950.3	1.3	1.2	1.2	9.1	6.5	5.9	23.7	15.3	12.9			
PokerTek, Inc.	PTEK	NC	NC	\$0.72	NC	N/A	Dec	6.9	(\$0.1)	\$5.0	\$4.9	n/a	n/a	n/a	n/a	1.8	n/a	n/a	n/a	n/a			
Scientific Games Corp	SGMS	Buy	\$13.50	\$8.21	64%	466,024	Dec	92.1	\$1,304.9	\$756.3	\$2,061.3	0.9	0.9	0.8	6.5	6.1	5.3	20.1	24.8	14.7			
Shuffle Master, Inc. (b)	SHFL	Buy	\$14.00	\$11.79	15%	346,475	Oct	55.0	\$17.0	\$648.0	\$665.0	3.2	2.8	2.6	10.5	8.6	7.4	23.5	20.0	16.8			
TransAct Technologies (b)	TACT	Buy	\$11.00	\$7.45	48%	26,065	Dec	9.7	(\$7.9)	\$72.0	\$64.0	1.1	1.1	1.0	8.6	7.2	5.8	18.8	14.7	11.7			
Wells Gardner Electronics Corp.	WGA	NC	NC	\$2.04	NC	13,651	Dec	11.6	\$1.5	\$23.7	\$25.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a			
WMS Industries, Inc.	WMS	Neutral	\$20.00	\$20.81	-4%	794,728	Jun	56.6	(\$33.3)	\$1,177.8	\$1,144.5	1.5	1.6	1.5	4.2	5.1	4.4	11.2	14.9	11.5			
<i>Average</i>												1.5	1.6	1.5	6.9	6.3	5.9	19.6	19.9	15.0			
<i>Gaming Industry Average</i>												1.5	1.2	1.2	9.1	7.0	6.5	27.8	19.0	14.5			

Notes:

Calendar revenue and EPS values are First Call MEAN estimates unless covered by Roth Capital, EBITDA values are Roth Capital estimates for covered companies., & Balance Sheet values are as of the most recent quarter.

EPS estimates include stock-based compensation expense

Ratings System Definitions :

Buy: A security, which at the time the rating is instituted and or reiterated, indicates an expectation of a total return of at least 10% over the next 12 months.

Neutral: A security, which at the time the rating is instituted and or reiterated, indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

Not Covered (NC): ROTH does not publish research or have an opinion about this security. On September 28, 2010, ROTH changed its rating system in order to replace the Hold rating with Neutral.

Source: Roth Capital Partners , Company Reports, and Thomson One

Todd J. Eilers
Roth Capital Partners, LLC
949-720-5781
teilers@roth.com

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Disclosures:

ROTH makes a market in shares of MultiMedia Games, Inc., Scientific Games, Shuffle Master, Inc. and Transact Technologies, Inc. and as such, buys and sells from customers on a principal basis.

On September 28, 2010, ROTH changed its rating system in order to replace the Hold rating with Neutral.

On May 26, 2011, ROTH changed its rating system in order to incorporate coverage that is Under Review.

Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 12/27/11	
			Count	Percent
Buy [B]	191	69.2	52	27.2
Neutral [N]	74	26.8	11	14.9
Sell [S]	0	0.0	0	0
Under Review [UR]	9	3.3	3	33.3

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